

GOVERNANCE COMMITTEE MEETING: 19TH MARCH 2012

SUBJECT: INTERNAL AUDIT OPERATIONAL PLAN FOR 2012/13

REPORT OF THE HEAD OF INTERNAL AUDIT

1. Purpose of Report

- 1.1 To enable the Governance Committee to consider and comment on the proposed Internal Audit Operational Plan for 2012/13.

2. Background

- 2.1 The Terms of Reference of the Committee include '*consider and endorse the Internal Audit Strategy and Operational Plan, and monitor performance*'.
- 2.2 The current Internal Audit Strategy was agreed on 21st March 2011 and remains fit for purpose, therefore this report only covers the Internal Audit Operational Plan for 2012/13.

3. Recommendation

- 3.1 The Governance Committee is invited to consider and, if appropriate, make comment on the attached proposed Internal Audit Operational Plan.

4. Background Papers

- 4.1 None

Tyne and Wear Fire and Rescue Authority

Internal Audit Operational Plan for 2012/13

1. Introduction

- 1.1 This document sets out the proposed Internal Audit Operational Plan and key performance measures for 2012/13.

2. Development of the Plan

- 2.1 In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the business over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with the Chief Fire Officer and other senior officers. The Operational Plan sets out the work scheduled for the next financial year.
- 2.2 As specific areas of concern or irregularity may require investigation as and when they arise, a contingency is made for this work.
- 2.3 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the Chief Fire Officer and Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.
- 2.4 In addition, unforeseen work can arise due to new areas of service or increased risk which is appropriate to prompt internal audit work in the year. Therefore, in order to allow some flexibility, a contingency is made to enable such work to be undertaken without adversely affecting the delivery of the planned audit work.
- 2.5 Time has also been allocated for the provision of advice and guidance. Specific advice will be provided in relation to HR procedures which have been agreed to manage the re-structure of services within the Fire Service. Changes will also be ongoing in relation to business planning and the Integrated Risk Management Plan. Limited audit work will also take place to ensure that the changes being considered are appropriate.
- 2.6 Within the plan, provision has also been made to carry out follow up work to monitor the implementation of previously agreed recommendations (except for those classed as low risk).

3. Planned Audit Work for 2012/13

3.1 The following audits are planned.

3.1.1 Local Financial Systems (15 days)

This audit will examine the arrangements with regard to the local financial systems operated by the Authority following the recent review. The audit will include ensuring that appropriate procedures have been developed for key areas of financial activity.

3.1.2 Training Centre (12 days)

It is a number of years since an audit of the training centre has been carried out. The audit will include a review of arrangements to provide training courses and collect income.

3.1.3 Purchasing Cards (10 days)

This area has not been audited previously and is currently under review. The audit will include a review of the arrangements for issuing of the cards, use of the cards and authorisation of transactions.

3.1.4 Catering (10 days)

The management of this service is changing and therefore it is appropriate to review the new arrangements to ensure that they are robust.

3.1.5 Fire Safety Inspections (10 days)

This audit will review the arrangements for planning, undertaking and recording of fire safety inspections in line with appropriate guidance.

3.2 In addition to the above, 19 days have been allocated for proactive financial transactions testing to ensure that appropriate controls continue to be in place during a period of change in the back office services. The areas covered will include

- Payroll
- Accounts payable
- Cash transactions

3.3 Each audit is linked to the appropriate key risk area(s) to identify the audit work that will inform the opinion in relation to each key risk area. Appendix 1 to this report shows all of the key risk areas and those audits that contribute towards the opinion on each area. It should be noted that some audits contribute towards the opinion of more than one key risk area and some key risk areas rely on a number of audits.

- 3.4 In addition to the above, audit work is also undertaken on the Lead Authority's key financial systems, which are used by the Authority. Systems planned to be audited include:

- Accounts Payable;
- Periodic Income;
- Payroll.

4. Reporting Protocols

- 4.1 At the conclusion of each individual audit a Draft Report and, if necessary, a proposed Action Plan will be forwarded to the appropriate manager. Once agreement has been reached, a Final Report (including any Action Plan) will be forwarded to the Chief Fire Officer. Where audits highlight issues which need to be brought to the attention of the Finance Officer they will be raised as and when necessary.
- 4.2 A quarterly progress report will be presented to the Chief Fire Officer indicating the level of achievement against agreed targets and any major findings arising from the audit work undertaken.
- 4.3 The Governance Committee will be updated on progress against the audit plan approximately half way through the year.
- 4.4 An Annual Report will be prepared for the Authority and the Governance Committee, in order to give assurance, or otherwise, to Members that they can rely on the internal control framework of the Authority.

5. Performance Management

- 5.1 All work undertaken will be in accordance with its policies and procedures, which are based upon the professional standards required by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA-UK).
- 5.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year, are shown in Appendix 2.

6. Variations to Audit Plan

- 6.1 In order to allow some flexibility in the work Internal Audit Services undertakes, as stated earlier a contingency is made to enable unforeseen requests to be responded to without adversely affecting the delivery of the planned audit work. However, if the contingency has been exhausted an assessment will be carried out to determine whether requests for additional work should be undertaken, based on the impact upon the delivery of the plan and the risks associated with the work requested.

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2012/13
Corporate Governance	5%	Recent audit work in this area confirmed strong arrangements in place. No specific audit work necessary.	Good	
Service / Business Planning, IRMP	6%	Last audit 2009/10 therefore cover in 2012/13	Good	Fire Safety Inspections
Financial Management	5%	Reduction in staff and redesign of services means audit work is required in 2012/13.	Good	Local Financial Systems Training Centre Catering Financial Transactions
Risk Management	8%	Recent audit work has highlighted sound arrangements in place.	Good	
Procurement and Contract Management	14%	Reviewed in 2010/11 and PFI contract management in 2011/12. Purchasing cards not previously audited.	Satisfactory	Purchasing Cards
Human Resource Management	5%	History of good performance, however changes in arrangements require review.	Good	
Asset Management	8%	Recent audit work has highlighted sound arrangements in place.	Good	
ICT	24%	A review of the progress in implementing the Data Handling guidelines still to be undertaken in 2011/12. Follow up work in 2012/13.	Good	
Fraud and Corruption	2%	Consideration of counter fraud testing as the back office services go through a period of change and review.	Good	Financial Transactions
Information Governance	25%	Information governance covered in 2010/2011, information security in relation to ICT to be covered during 2011/2012. Follow up work in 2012/13.	Good	
Business Continuity and Contingency Planning	12%	Follow up work in 2011/12 confirmed all recommendations implemented. No work required in 2012/13.	Good	
Performance Management	5%	Recent audit work has highlighted sound arrangements in place.	Good	
Payroll	5%	Limited transaction testing is to be undertaken following change in back office services.	Good	Financial Transactions
Partnership Working	14%	Risks in relation to this area will be reviewed in discussion with key officers of the Authority in 2011/12.	To be provided in annual report	

PREVENTING PROTECTING RESPONDING

Project Management	15%	Project Management arrangements to be reviewed for a key project in 2011/12.	To be provided in annual report	
--------------------	-----	--	---------------------------------	--

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) All key risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 70%

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2012/13		
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported